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SUBJECT: UNEMPLOYMENT DECREASED MAINLY DUE TO GOVERNMENT PROGRAMS

¶1. SUMMARY. Job creation in the private and public sectors was boosted by an increase in government-subsidized contracts, and special government incentives. At least 700,000 jobs were created with the government's support in Q-1, which can explain the decrease in the unemployment rate to 9.1 percent. The youth unemployment rate remained high although youth were the main beneficiaries of government programs. The government still has plans to reform labor. However, it will be difficult to make any significant reform before the 2007 presidential elections, especially after the First Employment Contract (CPE) crisis. END SUMMARY.

Government Measures to Reduce Unemployment

¶2. Job creation probably occurred in sectors not captured by the quarterly employment indicator: small companies, the government sector, and among non wage-earners. The government action in favor of employment focused on those sectors. As soon as Dominique de Villepin was appointed Prime Minister last June, he took measures to boost employment in small companies and to reinforce the "Social Cohesion Plan" launched by Social Cohesion Minister Jean-Louis Borloo in 2004.

Job Creation with New Hire Contracts in Small Companies Looks Modest

¶3. In August 2005, De Villepin created by decree the New Hire Contract (Contrat Nouvelle Embauche - "CNE") that allowed small companies of up to 20 employees to easily hire and fire new recruits during the first two years of employment. The government, inspired by the success of similar programs in other countries, was following recommendations made by the OECD and the EU commission. Although the government has repeatedly claimed that 540,000 CNEs have been "signed" since August 2005, those signatures simply reflect company plans to hire, not actual hiring. According to the National Statistical Agency INSEE, the cumulative net job creation related to CNE was only 10,000 to 20,000 per quarter. Labor economist specialists Pierre Cahuc and Stephane Carcillo forecast net creation of 70,000 jobs by the end of 2008. CNEs might have a substitution effect with other labor contracts, and might also result in lay-offs before the end of contracts. According to a recent FIDUCIAL-IFOP survey, CNEs accounted for 16 percent of hiring in small companies in Q-1 compared with 16 percent and 20 percent in Q-3 and Q-4 2005. In Q-1, 81 percent of small companies planned to keep employees after the two-year period.

Government-Subsidized Contracts

Boost Employment of Youth in the Private Sector and . . .

¶4. In the private sector, government-subsidized apprenticeship, temporary and social insertion contracts boosted youth unemployment. Apprenticeship contracts increased 6.3 percent to a new high, 382,000, in Q-1, after 241,000 in 2004 and 255,000 in 2005. Apprenticeship contracts accounted for 3.8 percent in companies with less than 50 employees and 0.5 percent in companies with more than 250 companies in Q-1. Given this success, the government plans to develop apprenticeship contracts in universities in order to create 100,000 jobs by 2010. The government was also pleased that 28,984 young people were hired through professional internship contracts, which combine training with practical, hands-on work experience, in the first four months of 2006.

. . . Employment of Long-term Unemployed in the Public Sector

¶5. The Social Cohesion Plan has been revamped, contributing to further job creation in the public sector. New government-subsidized contracts, including future contracts ("contrats d'avenir") and employment support contracts ("contrats d'accompagnement dans l'emploi"), gradually replaced solidarity contracts and consolidated employment contracts. About 194,000 long-term unemployed were involved in future and employment support contracts as of April. The government expected to hire 300,000 individuals under these contracts in 2006.

Government Incentives Encourage Labor and Part-time Work

¶6. Rather than set aside more funds for direct assistance, the government has also increased financial incentives meant to encourage the unemployed to return to the workforce. Starting in 2006, the Earned Income Tax Credit (EITC) has been paid to the long-term unemployed working at least 78 hours per month over 4 months, and this at the end of the fourth month (no longer with a year's delay), which is intended to make the EITC more attractive. Budget funds devoted to EITC were increased by 500 million euros to 3.2 billion in 2006 and could be increased 500 million euros more in ¶2007. The government, however, has made no comment on the success of EITC in regards to employment.

¶7. The 2006 budget also includes income tax-credit (about 1,000 euros depending on income) for youth taking jobs in sectors with labor shortages (agriculture, retail trade, construction, mechanics, hotel-restaurants, food), and mobility premiums (1,500 euros) for the unemployed relocating in order to accept a job far from home. The government has not reported on the efficiency of this measure.

¶8. The government extended the use of the Employment Check ("Cheque Emploi") system, which has been available to individuals, to associations and businesses, as the number of these actors involved in services-to-individuals increased 34 percent since February 2005.

More than one million employers use the system, now called the Universal Employment Check "Cheque Emploi Service Universel" ("CESU"), each month. The check represents a very simple way to ensure the legal employment and payment of domestic and temporary workers. Its intent was to both stimulate employment and move jobs from the informal sector into the mainstream. Both employer and employee benefit, as employers receive tax reductions and employees social tax benefits. The check has resulted in a net creation of 70,000 jobs in the services-to-individuals sector per year. The government plans to increase job creation in this sector to 500,000 in three years with the Plan for Services to Individuals, launched in February 2006.

Government Initiatives to Help the Unemployed

¶9. The government introduced a proposal ("Convention de Reclassification Personnalise") to provide personalized help and financial assistance for up to 16 months to employees laid off for economic reasons. Since October 2005, 5,000 unemployed entered the program each month. 31,705 unemployed were still involved in the program in February, while 10,295 had left because they found work.

¶10. In January 2006, the National Employment Agency (ANPE) started to treat job seekers as clients, providing personal advice and monthly follow-ups. In May, the government, the ANPE, and the Unemployment Insurance Fund (UNEDIC) signed an agreement to work

closer together. Objectives are to simplify procedures for job seekers, energize the job search and provide the best service possible to both companies and the unemployed. The government planned to open 200 local Employment Centers ("Maisons de l'Emploi") by the end of 2006. Each center will regroup public service offices (government, ANPE, UNEDIC) and various partners (local authorities and missions, chambers of commerce, and adult training organizations) in the same area. The government's objective is to increase the number of centers to 300 in order to provide a truly national network by the end of 2007. Budget expenditures related to the Social Cohesion Plan will amount to 2.6 billion euros in 2006 and will eventually rise to 13.8 billion euros by 2009 based on Senate's recent estimates. These estimates do not include cuts in payroll taxes on low wages, which amounted to 16.3 billion euros in 2004, based on a recent Labor Ministry survey.

The GOF Aims to Reduce Unemployment
to 8.5 percent by the end of 2006

¶11. President Jacques Chirac stressed that "the continued decline in unemployment over the last 13 months was the result of government policy." Minister Borloo, who predicted a decrease in the unemployment rate to 9.0% by the end of 2006, said that the unemployment rate could decrease to below 9% as soon as September and to 8.5 percent by the end of 2006. The Social Cohesion Plan was originally designed with hopes of reducing the unemployment rate to 8 percent by early 2007. Borloo recently said "we must move towards 7.9 percent," and "the government priority in the next months will be to reduce youth unemployment."

Head of OECD Employment Division's Insights

¶12. Raymond Torres, the Head of the OECD Employment Division told us that France had to increase its employment rate, warning that, "if it stays at 63.1 percent, problems will remain major." He suggested that the government follow other European countries (notably Denmark and Austria) as examples and also proposed reforming the French social model, adding that "reform will require substantial movement within the otherwise static French administration." He warned that, in the long term, the government would have to make painful reforms, as the budget situation will gradually become unsustainable due to high unemployment and an

increasingly older population.

Further Government Reform Plans

¶13. The government failed to implement a new youth employment policy, the First Employment Contract ("Contrat Premier Emploi" - CPE), originally created to tackle a double-digit youth unemployment rate (22 percent on average, and up to 50 percent in the poor suburbs). The idea was to give employers more flexibility in hiring young people by extending the probationary period during which an employer can fire an employee to two years; under the current system, which some argue is too hard on employers, the probationary period is limited to a maximum three months, after which lay-offs become difficult. The government has developed a new plan to reduce youth unemployment, but has not yet provided details.

¶14. Due to the CPE crisis, the government delayed its plan to boost the employment of seniors. On June 6, the government eventually introduced a plan to increase the senior employment rate to 50 percent from 37.9 percent over a period of five years. The key measure of this plan involves the creation of 18-month employment contracts for those aged 57 and over who have been unemployed for at least three months. The contract may be renewed for additional 18-month periods. The government elaborated on these measures before the Economic and Social Council, whose members include labor union representatives in all sectors. The unions by and large agreed with the plan, but the leftist CGT and FO disapproved of the proposal to eliminate the "contribution Delalande", a tax paid by employers who lay off wage-earners over age 50. The government deemed the tax "an obstacle hindering the hiring of seniors."

¶15. The government also commissioned a report on the proposed reform of social taxes paid by employers to boost employment. The idea is to base taxation on company value-added rather than gross payroll expenses, which would theoretically reduce labor costs and

stimulate job creation. However, the joint report issued by the Finance Minister and Social Security experts warned that such a reform would create jobs only in the short-term, would slow investment growth, and would negatively affect France's attractiveness to foreigners. Within the government, there is no consensus on this reform.

Comment

¶16. The government has continued its 30-year tradition of boosting employment with government-subsidized contracts. Based on our estimate, the government created at least 700,000 jobs in Q-1. The GOF's objective was to significantly reduce unemployment as quickly as possible, especially with the 2007 presidential elections looming. Reforming the labor market will be difficult after the Government's failure to launch the CPE. GOF programs in favor of employment have been costly, which hurts the government's other stated objective to reduce the budget deficit to below 3 percent of GDP in 2006. The Social Cohesion Plan will ultimately reduce the government's room for maneuvering in following years. End comment.

STAPLETON